

VZCZCXYZ0001
PP RUEHWEB

DE RUEHNC #1953/01 3261431
ZNR UUUUU ZZH
P 221431Z NOV 06
FM AMEMBASSY NICOSIA
TO RUEHC/SECSTATE WASHDC PRIORITY 7244
INFO RUEHTH/AMEMBASSY ATHENS 3733
RUEHBS/USEU BRUSSELS
RUEHLO/AMEMBASSY LONDON 1255
RUEHBK/AMEMBASSY BANGKOK 0546

UNCLAS NICOSIA 001953

SIPDIS

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [FAIR](#) [ECON](#) [CY](#)

SUBJECT: HELIOS SUCCESSOR "AJET" SUSPENDS OPERATIONS; CYPRIOT CRASH REPORT DUE IN DECEMBER

Ref: Nicosia 1755

¶1. (SBU) Summary: Over a year after one of its Boeing 737s crashed into a Greek mountainside killing all 121 people on board, Ajet (formerly Helios Airways) has suspended all operations citing unsustainable financial losses. Ajet currently has no plans to declare bankruptcy pending the outcome of its lawsuit against Boeing, which it is publicly blaming for the August 2005 crash. Average ticket prices in and out of Cyprus -- especially for the Christmas period -- have increased significantly due to the demise of Ajet, which at its peak carried as many as 10 percent of Cyprus's 2.5 million annual tourists, and was Cyprus's only low cost airline.

¶2. (SBU) Meanwhile, on November 13 the GoC officially bought EuroCypria from Cyprus Airways as a way to inject cash into the struggling national airline, pending an EU decision on whether the GoC can guarantee a CYP 60 million restructuring loan. The Kallis Commission set up by the GoC to assess responsibility for the August Helios crash wraps up its public hearings December 1 and is expected to issue its report in early December. This will supplement the Greek investigatory report released in October (reftel) that found human error as the primary cause of the accident, but included as "latent causes" Helios' lack of a safety culture, systemic weaknesses in the Cypriot Civil Aviation Department and Boeing's "ineffective measures taken in response to previous depressurization incidents." End Summary.

Helios/Ajet's Stormy End

¶3. (U) On October 30 Ajet (formerly Helios Airways) announced plans to suspend all its operations within three months, citing continued and unsustainable financial losses. The announcement signaled the de facto end of Ajet, which for the last 15 months has hemorrhaged money as it tried to rebuild its image and clientele following the August 2005 crash of one of its Boeing 737s into a Greek mountainside. The crash, which killed all 121 passengers on board, has had a profound effect on the tight-knit Cypriot society, as almost everyone knew at least one of the victims personally. Relatives of the victims continue today to call for those responsible to be brought to justice, and over the past year the police have had to intervene twice to extract the Minister of Communications and the former Helios General Manager from the clutches of angry protesters.

¶4. (SBU) Prior to the decision to suspend its operations, Ajet General Manager Brian Field, who joined the company ten days before the accident, complained to us that the press and government authorities continued to punish the airline unfairly for the crash and refused to treat the struggling airline objectively. For instance, the GoC's delay in giving approval to the renaming of the airline and to sending an inspector to Seattle for the delivery of a

new Boeing 737-800 (leased through an Irish subsidiary of General Electric) cost the airline several million dollars. As a result, Field was planning to transform Ajet into a UK airline, subject to UK oversight, a move he thought would help the image of the firm and ensure better treatment.

15. (SBU) Compounding Ajet's woes was the European Commission's decision to threaten to blacklist Ajet in an apparent response to the continued negative press coverage hounding the airline. The Commission's September Safety Committee, however, gave Ajet a clean bill of health, but noted that it would continue to monitor Ajet closely, a move the press termed as Ajet receiving a "yellow card." The head of the Cypriot Civil Aviation Department called this interpretation unfair, noting to us that under Field's leadership, Ajet had transformed itself into a solid airline.

16. (SBU) Press reports suggest that Ajet's losses since the crash were as high as CYP 24 million (USD 53 million) including the CYP 18 million (USD 40 million) that Ajet's parent company Libra Holidays had written off in goodwill. According to Field, as part of its very profitable deal to sell its previous charter airline, Excel Airways, Libra Holidays had guaranteed several hundred thousand seats from its holiday packages per year to Excel until 2008. Ajet had only to survive until 2008 and could then expect to inherit these guaranteed seats. One of Libra Holidays shareholders told us that the company had considered disbanding Helios/Ajet immediately after the accident but had been overruled by the main shareholder, Andreas Drakos, who had still hoped to repeat with Ajet the success the company had had with Excel.

Government Impounds Ajet's Leased Plane

17. (SBU) Ajet's last days did not go smoothly. Following Ajet's October 30 announcement, the Ministry of Communications gave orders to stop an Ajet flight to Gatwick over concerns that Ajet might try to skip out of the over CYP 2 million owed to the GoC in back taxes and landing, passenger and other airport fees. To ground the plane, the Government used a truck to block it from taking off, risking a possible accident on the tarmac and temporarily stranding over a hundred tourists who were on board. Despite a court decision allowing the plane to be returned to its owner, the Irish GE subsidiary Celestia, the GoC refused to allow the plane to leave until all taxes and fees were paid. Celestia's Cypriot lawyer told us that under Cypriot law some airport fees are the joint responsibility of both the airplane operator and owner, and thus Celestia may be liable for some of this debt. The plane was to take off for Ireland on November 22 after Celestia agreed to put up a bank guarantee pending a court decision on the extent of Celestia's financial responsibility. The final nail in the coffin for Ajet, however, came on November 2, when the Civil Aviation Department formally suspended Ajet's operating license on the grounds that Ajet's financial difficulties could pose a safety risk.

Ajet Blaming Boeing for Crash

18. (SBU) Although it has suspended its operations and laid off most of its staff, Ajet will remain alive as a legal entity pending the outcome of all the crash related investigations and law suits. On October 22, the Greek investigatory commission issued the Tsolakis report (reftel) which found human error to be the primary cause of the accident but found Helios (Ajet) to be a poorly organized and managed organization lacking an established "safety culture." It also found as other latent causes: systemic weaknesses in the Cypriot Civil Aviation Department and Boeing's "ineffective measures taken in response to previous depressurization incidents." Nevertheless, Ajet continues to publicly blame Boeing for the crash and has filed suit against Boeing in a Greek court seeking up to CYP 30 million (USD 66 million) in damages. Many of the victims' relatives are also suing Boeing in the U.S. According to the press, Ajet continues to challenge the Tsolakis report's finding of human error, blaming the crash on manufacturing faults in the wiring of the plane, which it alleges led to the plane's depressurization and hence the accident.

¶9. (SBU) Meanwhile, the Committee in Cyprus, chaired by former Supreme Court Judge Panayiotis Kallis, continues to investigate the accident in parallel with criminal investigations that have been launched in both Cyprus and Greece. Elias Nikolaides, who served on the Greek investigatory committee and has been hired to assist Kallis, told us that the Kallis Commission would hold its last public hearing on November 20 and should complete and hand over its report to the Council of Ministers in early December. (Note: The last hearing was subsequently postponed until December 1, however, to accommodate the schedule of Libra Holidays President Andreas Drakos. End note.) According to Nikolaides, the report will be much shorter than the Tsolakis report and would focus on assigning responsibility for the crash including with the Government, Minister of Communications and Civil Aviation Department if necessary. He would not, however, speculate on what the contents of the report might be. It would be up to the Council of Ministers to decide what to do with the report. Several observers have suggested that there will be no one the GoC will be able to hold as criminally liable for the accident since the Tsolakis report found the crash to be caused by human error and the pilots both died in the crash. Nevertheless, there is significant public pressure on the government to be seen as holding someone accountable, and the Cypriot police are independently investigating the accident. We are not aware of anyone connected with Boeing having been called before the Commission.

Civil Aviation Reform

¶10. (SBU) In addition to Helios/Ajet, the Cypriot Civil Aviation Department also took a beating in the Tsolakis report. Civil Aviation Department Director Leonidas Leonidou admitted to us that his Department had had serious shortcomings that could have led to a serious accident, although he insisted that the Department was not responsible for the Helios crash. Leonidou told us that following an assessment by the European Aviation Safety Agency (EASA), EASA has sent him a list of over 150 recommendations on how to improve the Department. To help address these concerns and professionalize the agency, the GoC had hired U.S. aviation consultants SH&E, hired and trained several more staff and reduced its dependency on help from the UK Civil Aviation Authority. According to Leonidou, the GoC had already satisfied over 90 percent of EASA's recommendations.

Those that remained did not directly concern safety such as the need to have a legal office within the Civil Aviation Department. Leonidou expected EASA to return in January. He complained that the Department's position as an agency under the Ministry of Communications left the Department open to political pressure and

severely constrained his ability to fire and hire staff. Leonidou was pressing this issue within the GoC and hoped to obtain independence for his Department within a year.

State Sells Cyprus's Only Profitable Airline to Itself

¶11. (SBU) In other Cypriot aviation news, the long awaited sale of Cyprus Airways subsidiary EuroCypria to the GoC went through on November 13 for a reported sum of CYP 13.425 million (USD 30 million). Since the GoC owns 69.6 percent of the shares of Cyprus Airways, this was a case of the government selling EuroCypria to itself. Cyprus Airways decided to sell off its profitable arm in order to obtain a much needed cash infusion, pending EU approval for the GoC to guarantee a CYP 60 (USD 132 million) restructuring loan. Cyprus Airways lost CYP 23.3 million (USD 51 million) for the first six months of this year compared to losses of CYP 20.4 million for the first half of 2005. Over CYP 10 million of losses in 2006, however, were attributable to one-off redundancy payments as Cyprus Airways continues to try to trim its bloated staff. For years, successive governments had rewarded loyal supporters with high paying jobs at Cyprus Airways, regardless of qualifications or the company's real needs. In June, EuroCypria, Cyprus's only profitable airline, took delivery of its 5th Boeing 737-800.

SCHLICHER